STATE OF MAINE
PUBLIC UTILITIES COMMISSION February 15, 2001

HAMPDEN TELEPHONE COMPANY Proposed Rate Change	Docket No. 2000-807
HARTLAND & ST. ALBANS TELEPHONE COMPANY Proposed Rate Change	Docket No. 2000-809
THE ISLAND TELEPHONE COMPANY Proposed Rate Change	Docket No. 2000-811
WEST PENOBSCOT TELEPHONE COMPANY Proposed Rate Change	Docket No. 2000-812
SOMERSET TELEPHONE COMPANY Proposed Rate Change	Docket No. 2000-814
WARREN TELEPHONE COMPANY Proposed Rate Change	Docket No. 2000-815

STIPULATION

Hampden Telephone Company ("Hampden Tel."), Hartland & St. Albans Telephone Company ("Hartland Tel."), Somerset Telephone Company ("Somerset Tel."), The Island Telephone Company ("Island Tel."), Warren Telephone Company ("Warren Tel."), and West Penobscot Telephone Company ("West Penobscot Tel.") (collectively "the TDS Telephone Companies") and the Office of the Public Advocate ("Public Advocate") hereby agree and stipulate as follows:

I. PURPOSE

The purpose of this Stipulation is to settle all issues in these proceedings, to avoid a hearing on the issues raised in these cases, and to expedite the Commission's consideration and resolution of these proceedings. The provisions agreed to herein have been reached as a result of the review of information provided by the TDS Telephone Companies as a part of their initial filings, in response to written Data Requests, at various meetings of the parties and the Commission's Advisory staff ("Staff"), in response to oral information requests, and as a result of discussions among the parties and the Staff in these cases.

II. BACKGROUND

On May 27, 1997, the Maine Legislature enacted 35-A M.R.S.A. § 7101-B which required the Commission to establish intrastate access rates for local exchange carriers based on their interstate access rates by May 30, 1999, and every two years thereafter. The Commission subsequently adopted Section 8(J) of Chapter 280 of its Rules, which set forth the method by which Section 7101-B would be implemented. In response, the TDS Telephone Companies filed schedules of intrastate access rates with the Commission on January 16, 1998 (Docket Nos. 98-036 to 98-041). On May 27, 1998, the Commission issued an Order Approving Initial Filings, which allowed the filed schedules of intrastate access rates to become effective on May 30, 1998. After the proceedings for the ITCs were concluded, the Staff and the Telephone Association of Maine ("TAM") began informal discussions to attempt to resolve issues regarding the access rate reductions planned for May 30, 1999. In October and November, 1998, the ITCs, including the TDS Telephone Companies, provided the Staff with earnings analyses of the impact of the further reductions.

On November 24, 1998, the Commission opened formal investigations into the rates of each of the ITCs, including the TDS Telephone Companies under Docket Nos. 98-894, 98-895, 98-904, 98-906, 98-911 and 98-912 (the "TDS Access Cases"). The purpose of those investigations, as set forth by the Commission in each of the Notices of Investigation, was as follows:

> As required by statute, the [TDS] Telephone Company's intrastate access rates must be reduced to the interstate level or lower no later than May 30, 1999. This investigation will consider the potential financial impact upon the Company from this change, and may examine other factors, such as changes to basic local exchange rates or the need for a state universal service fund, that may be needed to offset all or a part of the revenue effect of access rate reductions. Any adjustment to revenues will be based on an assessment of amounts needed to allow the Company an opportunity to earn a fair rate of return.

On January 28, 1999, the Commission issued its Interim Order in the Access Cases which stated the goals that the ITCs would be required to reduce access rates as necessary to achieve intrastate access rates at NECA Pool Disbursement levels by May 30, 1999, and that the ITCs would be required to further reduce intrastate access rates to NECA Tariff No. 5 levels over the two years following May 30, 1999. The Interim Order also stated that:

> We expect that the ITCs will continue to participate fully in the discovery conferences conducted by Staff. We are hopeful that after further

discussions, the ITCs and the other parties will propose stipulated transition plans for our review.

In the months following this Interim Order, the TDS Telephone Companies, the Public Advocate, and the Staff continued to meet and discuss the elements of a plan for transitioning to access rates closer to the NECA Tariff No. 5 level by May 2001. Throughout this period, the TDS Telephone Companies participated and cooperated fully with the Staff and the Public Advocate and provided updated earnings analyses and additional requested information to the Staff and the Public Advocate.

On July 21, 1999, West Penobscot Telephone Company filed a revised Schedule of Rates providing for the addition of the Bangor exchange to the Premium Calling Area of its Exeter exchange pursuant to Part III(A) of Chapter 204 of the Commission Rules (Basic-Service Calling Area) (the "BSCA Rule"). On December 6, 1999, Somerset Telephone Company filed a Request for Accounting Order seeking an Order from the Commission approving the taking of additional depreciation over a 48 month period beginning January 1, 1999, so as to eliminate the reserve deficiencies in the Central Office Equipment ("COE") switch accounts.

These discussions between the TDS Telephone Companies, the Public Advocate, and the Staff resulted in a Stipulation dated April 12, 2000 (the "4/12/00 Stipulation") that contained, inter alia, the following provisions:

a. Goals and Objectives. The parties recognized that in its Interim Order the Commission stated its goal to establish by May 30, 2001 intrastate access rates for ITCs at the level of the NECA Tariff No. 5 interstate switched access rates. The Commission further stated that an ITC was not precluded from making a showing that its particular circumstances warrant a deviation from the stated goal, and that the Commission would remain open to individual company circumstances and mindful of each company's need for a reasonable rate of return. The parties also recognized the policy objectives of maintaining the affordability and comparability of the TDS Telephone Companies' rates for basic telephone service.

b. Access Rate Moratorium. From the date of the Commission's approval of the 4/12/00 Stipulation through May 29, 2001, the TDS Telephone Companies would not be required to reduce their intrastate access rates below their then currently existing levels as of April 12, 2000.

c. General Rate Proceeding. The parties agreed that, from the date of the Commission's approval of the 4/12/00 Stipulation until not earlier than August 30, 2000, neither the TDS Telephone Companies nor the Commission would initiate a rate proceeding for the purpose of effectuating or investigating an increase or decrease of any of the TDS Telephone Company's rates for basic exchange service and/or intrastate access service, or of the rate of return being earned by any of them. The TDS Telephone Companies agreed that no later than August 30, 2000[1], they would each file revised rate schedules which would include each of the TDS Telephone Companies' proposed reduction in access rates and any change in rates for basic exchange service, in accordance with the Goals and Objectives in subparagraph a, above, which rates would not be implemented until May 30, 2001. The rate structure of the access rates to be implemented on May 30, 2001, was to be consistent with the rate structure requirements of Section 8(J) of Chapter 280 of the Commission's Rules, unless those requirements were waived by the Commission.

d. Relationships of Access Rates and Basic Rates. The parties agreed that, to the extent the Commission's goal of reducing access rates to the NECA Tariff No. 5 level by May 30, 2001, conflicts with the goals of affordable and comparable rates while allowing a reasonable rate of return, the parties and the Commission would explore and consider alternatives, including a smaller reduction in access rates to a level above the NECA Tariff No. 5 level and/or the implementation of a state universal service fund, in order that local rates could be maintained at affordable and comparable levels.

In addition, the 4/12/00 Stipulation (i) approved the BSCA request for the addition of the Bangor exchange to the Premium Calling Area of the Exeter exchange, subject to a true-up of any net cost/revenue in these proceedings, and (ii) approved the Accounting Order requested by Somerset Tel. and approved accelerated depreciation of existing COE switching plant at Hartland Tel. and West Penobscot Tel.,

The 4/12/00 Stipulation was approved by this Commission by Order dated April 14, 2000, and by Corrected Order dated April 25, 2000.

During the summer of 2000, the TDS Telephone Companies, the Public Advocate, and the Staff held a series of meetings[2] to discuss ways to streamline the revenue cases that the ITCs would be filing by August 30, 2000. Meetings among the TDS Telephone Companies, the other ITCs, the Public Advocate, and the Staff were held on June 16, July 12, and July 19, 2000.[3] These discussions and meetings resulted in oral agreements among the parties and the Staff and in a memorandum filed with the Commission on July 19, 2000, on behalf of the TDS Telephone Companies and the other ITCs. The parties and the Staff agreed, inter alia, that the ITCs' initial filings would include "Chapter 120" financial data but would not include proposed rate schedules or proposed rate designs and that the customer notice to be sent by each ITC would not mention

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[1] This August 30, 2000 date was selected as the filing deadline because it was 9 months prior to May 29, 2001, the day before the new access rates were to become effective. This allowed the Commission the maximum 9 months to process these cases.

[2] Other ITCs undergoing similar proceedings also participated in these meetings and discussions.

[3] The parties also discussed various procedural and substantive issues during numerous telephone conferences throughout this period.

specific rate proposals but rather would more generally describe the objective of access reform, the pending review of the revenue requirement of the ITC, and the potential impact on local rates. The parties and the Staff agreed that each ITC would send an additional notice to its customers after the revenue requirement had been set and rate design issues were to be addressed. The parties and the Staff also agreed that each ITC would use a 1999 test year in its filing, that the filing would include specific additional information requested by the Staff and the Public Advocate, that the filing could be delayed for a few days without changing the statutory May 29, 2001 deadline, and that Somerset Tel. was not required to file the additional information required from a "major utility" (defined as revenues in excess of $5 million per year) under Chapter 120, section 6 and section 6(b).

During August, 2000, the Public Advocate, the Staff, and the TDS Telephone Companies jointly developed and approved a form of notice that was sent by each of the TDS Telephone Companies to its customers starting in mid August, 2000.

In late August and early September, 2000, the TDS Telephone Companies filed their Chapter 120 financial data and the additional data requested by the Staff and the Public Advocate. These filings were docketed by the Commission's Administrative Director as general rate cases filed pursuant to 35-A M.R.S.A. § 307. The Public Advocate was the only party to file a Petition to Intervene in any of these cases.

On October 13, 2000, this Commission issued a Procedural Order (the "10/13/00 Procedural Order") that confirmed the oral agreements of the parties and the Staff, granted waivers from the Chapter 120, section 5 requirement that in a general rate case the filing must include proposed rate schedules, a proposed rate design, and copies of customer notices with the filing, and directed that these cases should be completed by May 30, 2001, the target date for further reductions in intrastate access rates. That Procedural Order also ordered the TDS Telephone Companies to file copies of the notices sent to customers, which filings were made.

The 10/13/00 Procedural Order granted the Public Advocate's Petition to Intervene in each of these cases. The Procedural Order also directed that copies of the Procedural Order be sent directly to the other persons who had been parties in the prior access reform dockets for each company that resulted in the 4/12/00 Stipulation: Verizon (which had been an intervenor in each of the dockets) and the Inhabitants of Swans Island (who had intervened in the prior docket for Island Tel. only). Those parties were informed that, if they desired and notified the Commission, they would be granted intervenor status in these new dockets and that they did not need to file a new Petition to Intervene. Neither of those parties responded.

In the months following the 10/13/00 Procedural Order, the TDS Telephone Companies, the Staff, and the Public Advocate continued to review the revenue requirement of the TDS Telephone Companies. The Public Advocate filed two sets of Data Requests to each company, and each company filed responses or objections to both sets. This Stipulation resolves all outstanding discovery issues.

On December 13, 2000, and January 10, 2001, the TDS Telephone Companies met with the Staff and the Public Advocate to discuss the revenue requirement of each company and various rate designs which would provide reasonable rates to customers, allow the companies to earn a reasonable return, and provide a reduction in intrastate access rates towards the NECA Tariff No. 5 level by May, 2001. In addition, the TDS Telephone Companies and the Public Advocate met in person and via conference call on January 12, 16, 17, 19, 23, 24, 25, and 26, 2001.

During the meetings between the parties, including the meetings that included the Staff, the participants reviewed and considered the following for each of the TDS Telephone Companies:

a. Data and information about the 1999 test year for each company, the 1999 test year with only those adjustments contained in the 4/12/00 Stipulation, and each company's full Chapter 120 filing based on its 1999 test year plus known and measurable changes, together with each company's responses to Data Requests, responses to oral information requests, and other information provided.

b. The analysis, opinions, advice, and comments of various experts, both in-house and paid consultants, including, for the TDS Telephone Companies, NERA, Inc. (Cambridge, MA) for return on equity and capital structure, and, for the Public Advocate, Exeter Associates (Silver Springs, MD) for revenue requirement and the various adjustments, and Steve Hill (Hurricane, WV) for return on equity and capital structure.

c. The recent changes in the methodology used by the FCC to allow ITCs, including the TDS Telephone Companies, to recover their interstate revenue requirement, including shifting the recovery of some costs out of the NECA Tariff No. 5 rates over to other recovery mechanisms, including local switching support and long-term support. These are in addition to the end user subscriber line charge and any pooling benefit that ITCs receive to recover their full interstate revenue requirement. In substance, the amount of revenue recovered from the interstate access charge arrangement is greater than the amount of revenue recovered simply from NECA Tariff No. 5.

d. Other information provided by the companies, including information on an additional increase in revenue requirement of $200,000 to $300,000 requested by the companies collectively due to anticipated changes in separations factors that would shift more costs to intrastate recovery.[4]

e. Various adjustments and modifications proposed by the Public Advocate, including different returns on equity, various adjustments to the companies' numbers and calculations, and a possible accretion adjustment.

f. The existence of other important issues still facing the TDS Telephone Companies and other ITCs in Maine, such as modifications to the Basic Service Calling Area Rule, the unresolved issues of the treatment of Internet minutes, virtual NNX, and other issues which are developing, some of which are being examined by this Commission in pending dockets.

g. The Commission's goal of moving the basic local exchange rates charged by each ITC closer to the basic local exchange rates charged by Verizon for its customers with similarly-sized calling areas.

h. The objective of moving intrastate access rates to interstate levels.

i. The objective of keeping local rates and any increases reasonable and allowing each company an opportunity to earn a reasonable return.

III. STIPULATION PROVISIONS

The parties to this Stipulation agree and recommend that the Commission order as follows:

A. Intrastate Revenue Requirement. The intrastate revenue requirement for each of the TDS Telephone Companies is equal to its "Adjusted Total Intrastate"[5] test year revenues plus/(minus) the following:

Hartland Tel.	$0
Warren Tel.	($80,000)
Island Tel.	($240,000)
Somerset Tel.	$240,000
Hampden Tel.	$185,000
West Penobscot Tel.	$217,000

B. Increases to Local Rates. Based on the intrastate revenue requirements identified above, local rates should be changed to generate the following additional revenue for each of the TDS Telephone Companies:

[4] At the time the companies prepared their filings in August, 2000, they anticipated that their separations factors would be frozen by the FCC. However, that freeze has not yet occurred and does not seem likely in the near future.
[5] For each company, see Schedule 5.C.6, p. 1, col. 8, to its original filing (the 7th column of dollar values) (col. 10 for Somerset Tel., the 9th column of dollar values).

Hartland Tel.	$118,789
Warren Tel.	$20,469
Island Tel.	($3,897)
Somerset Tel.	$348,562
Hampden Tel.	$123,662
West Penobscot Tel.	$83,197

C. Rate Design. The local rates charged by each of the TDS Telephone Companies shall be modified as follows:[6]

a. The R-1 rate for each exchange of each company shall be increased by an amount equal to 50% of the difference between the company's current R-1 rate and the current R-1 rate charged by Verizon (based on Verizon's rate groups).

b. Hartland Tel., Warren Tel., and West Penobscot Tel.: touch tone service shall be incorporated into the definition of basic service and the separate monthly touch tone charge (ranging from $0.90 to $1.00) shall be eliminated.

c. Hampden Tel. and Somerset Tel.: the R-1 increase for each exchange shall be capped at $2.50 per month.[7]

d. The B-1 rate for each exchange of each company shall be equal to 1.5 times the R-1 rate for that exchange.

e. All other local exchange rates of each company (such as the R-2 and B-2 rates, vacation rates, key and pbx rates) shall receive similar changes.

f. The above rate design changes to local rates (sub-paragraphs a-d, above) shall not be made at Island Tel. because of the particular circumstances of that company. At the Isle au Haut exchange the current R-1 rate (which is above the equivalent Verizon rate) and the current B-1 rate shall be reduced to the current R-1 and B-1 rates for Island Tel's Swans Island exchange.

g. Various adjustments shall be made to the rates and rate elements for non-recurring charges, custom calling features, and inside wire maintenance to make these items more consistent among the TDS Telephone Companies and more consistent with the TDS telephone companies in other states. In addition, the terms and conditions and

[6] These rate design principles summarize most of the changes to the rates and tariffs of each company. Attachment 1 contains the specifics of every rate change.

[7] No cap shall be used at Hartland Tel., Warren Tel., or West Penobscot Tel. where touch tone charges (with high penetration rates of 87%, 92%, and 94%, respectively) are being eliminated. The local exchange rates of Island Tel. are changed as described in sub-paragraph f.

other tariff provisions shall be made consistent among the TDS Telephone Companies.

Attached to this Stipulation as Attachment 1 are the resulting rate elements and rates for each exchange of each of the TDS Telephone Companies.

D. Adjustment in Intrastate Access Revenue. As a result of the revenue requirement and the rate design changes described above, each of the TDS Telephone Companies will adjust its test year intrastate access revenues by the following annual dollar amounts:

Hartland Tel.	($118,789)
Warren Tel.	($100,469)
Island Tel.	($236,103)
Somerset Tel.	($108,562)
Hampden Tel.	$61,338
West Penobscot Tel.	$133,803

E. New Intrastate Access Rates. Each of the TDS Telephone Companies will establish new intrastate access rates that will (a) reflect the adjustment in annual intrastate access revenue referred to in the preceding paragraph, and (b) reflect the structure of NECA Tariff No. 5 interstate access rates, including the terms and conditions and other provisions of each company's interstate access Tariff. The resulting intrastate access rates to be filed by each company are set out in Attachment 2 to this Stipulation.

F. Additional Intrastate Revenue Requirement Above NECA Tariff No. 5 Rates.[8] Presently it is not practical to reduce the intrastate switched access rates of any of the companies to or below that company's NECA Tariff No. 5 rates. The parties agree that the location, service territory, and circumstances of each company result in the need for intrastate access revenue that is greater than the intrastate access revenue that would result from the application of such NECA Tariff No. 5 rates to each company's current intrastate switched access service. The parties agree that, for each company, the annual amount by which its current intrastate access revenue exceeds the revenue that would be generated if its intrastate switched access rates were set equal to its NECA Tariff No. 5 rates is as follows (based on the July, 2000 NECA Tariff No. 5 rates for each company).[9]

[8] These amounts are based on the assumptions (a) that there is no intrastate flat monthly subscriber line charge assessed to either the subscribers or the interexchange carriers involved, and (b) that no comparable intrastate components have been created to recognize the non-NECA Tariff No. 5 revenues that provide the balance of recovery of the interstate revenue requirement.

[9] This means that, if each company were to set its rate for each element of intrastate switched access equal to its current NECA Tariff No. 5 interstate rate, each company would immediately suffer a reduction in intrastate revenue equal to these stated amounts (based on its 1999 test year).

Hartland Tel.	$512,752
Warren Tel.	$269,689
Island Tel.	$470,835
Somerset Tel.	$2,421,898
Hampden Tel.	$259,694
West Penobscot Tel.	$486,387

G. Automatic Recognition of Certain Changes: The parties have identified the following possible future events at the federal level that could have a significant impact on the companies (and other ITCs in Maine):

1. Adoption by the Federal Communications Commission ("FCC") of the recommendation of the Rural Task Force ("RTF") for an increase in the current cap on the total high cost USF support available to all companies in any single year.

2. A change in the separations factors from the separations factors applicable to each of these companies for its 1999 test year.

In the event (i) either or both of these changes[10] become effective prior to December 31, 2001, and (ii) the cumulative net amount of such changes exceeds $100,000 per year collectively for all of the TDS Telephone Companies, then as soon as practicable following the effective dates of such changes, each of the companies shall adjust its intrastate revenues (either up or down, as appropriate) to pass through to its local and/or interexchange customers 100% of the net change. The method to distribute/collect this amount shall be determined by the TDS Telephone Companies and the Public Advocate, subject to approval by the Commission. This pass-through shall last for each company until the next review of its intrastate revenue requirement but no later than May 30, 2003.

H. Record Keeping. Each of the TDS Telephone Companies shall collect and retain the following information for periods commencing January 1, 2000. In each instance this information is collected and/or can be generated by the current billing system of each company but, in accordance with standard company practice, is not generally compiled in the format requested and/or retained for more than 1 year. This obligation shall terminate for periods commencing January 1, 2005, unless extended by agreement of the parties. Any information collected shall be confidential and shall be provided to the Public Advocate by each company only upon written request when the information is relevant to any proceeding before this Commission that examines the revenue requirement of that company. All objections to the use or admissibly of such data are preserved, except for the objection of "undue burden" which is waived with respect to this data. The cost of

[10] If the 2 changes do not occur simultaneously, then each shall be passed through to customers when it occurs.

generating, retaining, and supplying this data shall be included in the intrastate revenue requirement of each company.

1. Access:

    (a) Lines: the following information as of the last billing cycle of each year:

        (i) Total number of switched access lines; and

        (ii) The number of residential access lines broken down by primary and secondary (defined as "other than primary").

    (b) Minutes of Use: the annual minutes of use for:

        (i) Intrastate:

            (i) originating; and

            (ii) terminating

        (ii) Interstate:

            (i) originating; and

            (ii) terminating

2. <u>Vertical or Enhanced Services</u>: the following information for the full calendar year for each such service feature, with package (or bundled) offerings reported separately from non-package offerings:

    (a) The level of revenues;

    (b) The number of subscribers (or usage levels); and

    (c) The penetration rate.

3. <u>Employment Information</u>: the following information for the full calendar year:

    (a) The total number of employees; the number of full-time employees; the number of part-time employees; and the number of full-time equivalent;

    (b) The level of wages and benefits for each year; and

    (c) With respect to the level of wages and benefits, the level of early retirement or severance costs each year.

I. <u>Effective Date</u>. The changes in local and intrastate access rates described above shall be effective on May 30, 2001, or as soon thereafter as such rates can be implemented following approval by this Commission. Each company shall make all local rate changes effective on the first day of a billing cycle. That date is the 4th of the month for all companies except Hampden which is the 13th of the month. For intrastate access rates, the effective date will coincide with the date of the local rate change.

J. Public Hearing. If the Commission finds that the Stipulation provisions relating to intrastate revenue requirement are reasonable and that the other provisions have merit and should be considered further, the parties recommend that the Commission shall conduct a public hearing at the Commission's office in Augusta (or at such other location as the Commission shall order), at such time as the Commission shall order, for the purpose of receiving public comment on the proposed rates resulting from this Stipulation. If the Commission decides to conduct a public hearing, each of the TDS Telephone Companies shall send a notice to each of its customers notifying them of these changes and of the hearing to be held by this Commission. The form of notice to be used by each company with its retail customers is attached as Attachment 3.[11] If a public hearing is held, the Commission shall further deliberate on the merits of this Stipulation and issue its final Order on this Stipulation.

K. Staff Presentation of Stipulation. The parties to the Stipulation hereby waive any rights that they have under 5 M.R.S.A. § 9055 and related Commission Rules to the extent necessary to permit the Staff to discuss at public deliberations this Stipulation and the resolution of this case with the Commission, without the participation of any party.

L. Record. The record on which the Commission may base its determination whether to accept and approve this Stipulation shall consist of this Stipulation, all documents provided in responses to data requests and the December 13, 2000 information requests of the Staff, and any other material furnished by the Staff to the Commission, either orally or in writing, at the time of the Commission's consideration of this proceeding.

M. Non-Precedential Effect. Except where it may be expressly noted herein, the Stipulation shall not be considered legal precedent, nor shall it preclude a party from raising any issues in any future proceeding or investigation on similar matters subsequent to this proceeding.

N. Stipulation as Integral Document. This Stipulation represents the full agreement between all parties to this Stipulation and rejection or modification of any part of this Stipulation, including rejection or modification of the rate design provisions following any public hearing to be held as provided in paragraph III(J), above, constitutes a rejection of the whole.

[11] This proposed form of notice has been reviewed and approved by the Staff.

Hampden Telephone Company, Hartland & St. Albans Telephone Company, The Island Telephone Company, West Penobscot Telephone Company, Somerset Telephone Company, and Warren Telephone Company

Date:___________________ By:________________________________
Its

OFFICE OF THE PUBLIC ADVOCATE

Date:___________________ By:________________________________
Its

Attachment	1	New rates and rate elements for each company (Sec. III, paragraph C)
	2	New intrastate access rates for each company (Sec. III, paragraph E)
	3	Form of notice to customers (Sec. III, paragraph J)

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